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Policy Report

Overview: Georgia's 2014 Budget for Business Tax Breaks

Tax-Side Spending for Economic Development Continues to Swell

By Wesley Tharpe, Policy Analyst

In addition to the nearly $100 million that Gov. Nathan Deal proposes to spend on economic development during the 2014 fiscal year, Georgia is also scheduled to commit another $289 million through 16 business tax credits that companies in Georgia are eligible to claim.[1] These additional "tax expenditures," or tax breaks, will drive Georgia's total economic development spending in the next budget year to nearly $400 million, a considerable increase from the 2013 one. Although the stated goal of this tax-side spending is to help grow Georgia's economy and create jobs, it is unclear whether it actually does so – since lawmakers do not review the effectiveness of tax credits on a regular basis.

Table 1 **Tax-Side Spending Drives State's Economic Development Commitment Close to $400 million in FY 2014**

State Funds	FY 2013 Enacted Budget *(w/o one-time $)*	FY 2014 Governor's Budget	FY 2013 - FY 2014 Change ($)	FY 2013- FY 2014 Change (%) *(w/o one-time $)*
Budget-Side Economic Development Spending	$84,711,647	$98,062,449	$13,350,802	15.8%
Tax-Side Economic Development Spending	$255,500,000	$288,500,000	$33,000,000	12.9%
Total Economic Development	$340,211,647	$386,562,449	$46,350,802	13.6%

Sources: Governor's Budget Report: FY 2014, HB 742 FY 2013 Enacted Budget, FY 2014 Tax Expenditure Report
Notes: (1) Budget-side spending includes applicable components of the Departments of Community Affairs (DCA) and Economic Development (DEcD); (2) The Enacted FY 2013 budget excludes $99.4 million in special one-time funds; and (3) Tax-Side spending includes 16 applicable credits in Georgia's corporate income tax and insurance premium tax.

Designed to encourage a range of activities, such as creating jobs or attracting new film projects, corporate tax credits are essentially economic development spending by another name. By providing lower tax liability to companies in exchange for certain actions, they serve the same basic function as direct government spending – allocating public resources toward specific activities or goals. For example, a credit that allows film companies to keep millions of dollars they otherwise would have owed in taxes is, in effect, no different than a program that sends those companies checks directly from the state treasury. The only difference is that rather than going out through the annual budget, tax-side expenditures take place by not collecting those revenues in the first place.

Most Tax-Side Spending Arises From Five Credits

Of the nearly $289 million Georgia is scheduled to spend on economic development tax credits in the 2014 fiscal year, 89 percent is attributable to five specific credits: the Film Tax Credit; Insurance Premium Tax Credits;[2] Jobs Tax Credit; Employer Retraining Credit; and Research Tax Credit. Together, these are scheduled to cost the state an estimated $257 million in the fiscal year that starts July 1, 2013. As shown in Table 2, the several remaining business credits each cost at most a few million dollars per year.

Table 2 Most Tax-Side Business Spending Due to Five Large Credits

	In Millions		
	FY 2012	FY 2013	FY 2014
Film Tax Credit	65.0	75.0	86.0
Insurance Premium Tax Credits	77.0	79.0	81.0
Employer's Jobs Tax Credit	39.0	44.0	48.0
Employer's credit for approved employee retraining	19.0	25.0	29.0
Research Tax Credit	8.0	10.0	13.0
Manufacturer's Investment Tax Credit	7.0	8.0	9.0
Port Activity Tax Credit	7.0	7.0	7.0
Qualified Investor Tax Credit	0.0	0.0	7.0
Quality Jobs Tax Credit	3.0	4.0	5.0
Optional Investment Tax Credit	1.0	1.0	1.0
Seed-Capital Fund Credit	0.5	0.5	0.5
Qualified Health Insurance Expense Credit	0.5	0.5	0.5
Qualified Transportation Credit	0.5	0.5	0.5
Business Enterprise Vehicle Credit	0.5	0.5	0.5
Employer's credit for basic skills education	0.5	0.5	0.5
Teleworking Credit	1.0	0.5	0.0
Economic Development Credits	**229.5**	**255.5**	**288.5**

Source: Georgia FY 2014 Tax Expenditure Report
Notes: (1) Insurance Premium Tax Credits are included because Georgia allows for insurance companies to apply some corporate credits, such as the Jobs Tax Credit, to their premium tax liability; (2) The official Tax Expenditure Report does not provide specific estimates for credits costing between $0 and $1 million per year. Therefore, this report assigns a value of $0.5 million for each of those credits.

Tax Side-Spending is Growing

Based on the most recent estimates from the state's official Tax Expenditure Report – now in its third edition since lawmakers created it in 2010 – Georgia's economic development spending through the tax code has risen by $59 million, or nearly 26 percent, from the 2012 fiscal year to 2014. This contrasts sharply with many state agencies and services, such as education, which have seen considerable funding cuts in the last few years.

The fastest-growing business tax credit since 2012 is the state's incentive for filmmakers, which lawmakers signed into law in 2008. Aimed at attracting new film and multimedia projects to Georgia, the program grew by an estimated $21 million in the last two years, more than twice the next fastest-growing credit. Other business tax breaks, such as for private sector research and employee retraining, have also grown significantly, though for lesser total sums.

Table 3 Some Business Credits Increasing More than Others

	In Millions			
	FY 2012	FY 2013	FY 2014	FY 2012-FY 2014 Change ($)
Film Tax Credit	65.0	75.0	86.0	$21.0
Employer's credit for approved employee retraining	19.0	25.0	29.0	$10.0
Employer's Jobs Tax Credit	39.0	44.0	48.0	$9.0
Research Tax Credit	8.0	10.0	13.0	$5.0
Insurance Premium Tax Credits	77.0	79.0	81.0	$4.0
11 Others Combined	21.5	22.5	31.5	$10.0
Economic Development Credits	**229.5**	**255.5**	**288.5**	**$59.0**

Source: Georgia FY 2014 Tax Expenditure Report
Note: Comparing these credits' costs before the 2012 fiscal year is not currently possible, because even though Georgia's prior two Tax Expenditure Reports included figures for FYs 2010 and 2011, the authors of the report have significantly changed certain estimates due to improved and expanded data provided by the Department of Revenue. As a result, individual credits cannot be accurately compared to their pre-2012 estimates

Tax Credits Grow Without Evidence They Work

In Georgia, as in other states, lawmakers consistently turn to tax credits as a favored tool of economic development. Legislators frequently propose new credits for various policy goals – including job creation, downtown revitalization or energy production – and over the years, many were signed into law. Such programs are often enacted under the assumption that they have no real cost. After all, the reasoning goes, they are not spending programs in the budget, or they will easily pay for themselves over a short period of time.

The problem is, however, lawmakers do not know whether these credits are effective. Despite a spotty track record in other states,[3] Georgia lawmakers do not review the state's business tax credits very often, or very thoroughly. Budget-side spending, such as education and health care, is rigorously evaluated and debated each year. Tax-side spending often remains on the books for years, even decades, without review. Georgia recently ranked as one of 26 states that are "trailing behind" in evaluating its tax-side spending,[4] which means that lawmakers are spending hundreds of millions each year without fully knowing whether it is a wise investment.

Some corporate credits are likely more effective than others, but without better tools to measure them, there is simply no way to know. To correct this problem, policymakers could enact legislation designed to more closely investigate whether tax credits are working, such as House Bill 920 that was introduced in 2012. Until state leaders do so, this hidden area of government spending will most likely continue to grow over the next few years – further decreasing state revenues needed for education, transportation and other key investments.

Endnotes

[1]These 16 corporate income tax credits are those which are most associated with economic development policy goals. There are additional ones that serve non-economic functions, such as support for land conservation, private school scholarships and low-income housing. Those are excluded from this analysis.

[2]Unlike the other four, Insurance Premium Tax Credits are not a single specific credit. Because insurance companies pay the state's insurance premium tax as opposed to the corporate income tax, Georgia law allows those companies to apply three specific corporate income tax credits – the Jobs, Low-Income Housing and Clean Energy credits – against their income tax liability. However, because the state's Tax Expenditure Report lists this reduced liability as a single credit, it is impossible to know how much premium tax revenue is lost to each specific credit.

[3]The experiences of other states shed some doubt on whether these programs really help the economy or create jobs. Evidence shows that credits often just reward companies for investments that would have happened otherwise, such as when a company opens a new location it was planning regardless of whether it received public assistance. Corporate credits also drain state governments of funds for vital services like education and transportation, which leads to harmful budget cuts that undermine economic growth and lower quality of life. On the other hand, credits are likely useful in at least some cases, such as when they make a previously unfeasible business deal make sense.

[4] "Evidence Counts," Pew Center on the States. 4/12/2012. http://www.pewstates.org/research/reports/evidence-counts-85899378806

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